



TRANSAT A.T. INC.  
THIRD QUARTERLY REPORT  
Period ended July 31, 2018

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**Ticker symbol**  
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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter ended July 31, 2018, compared with the quarter ended July 31, 2017, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2017 and the accompanying notes and the 2017 Annual Report, including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a third quarter update to the information contained in the MD&A section of our 2017 Annual Report. The risks and uncertainties set out in the MD&A of the 2017 Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of September 12, 2018. You will find more information about us on Transat's website at [www.transat.com](http://www.transat.com) and on SEDAR at [www.sedar.com](http://www.sedar.com), including the Attest Reports for the quarter ended July 31, 2018 and the Annual Information Form for the year ended October 31, 2017.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). We occasionally refer to non-IFRS financial measures in this MD&A. See the Non-IFRS financial measures section for more information. All dollar figures in this MD&A are in Canadian dollars unless otherwise indicated. The terms "Transat," "we," "us," "our" and the "Corporation" mean Transat A.T. Inc. and its subsidiaries, unless otherwise indicated.

### CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements with respect to the Corporation. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend," "may", "plan", "potential", "predict", "project", "will", "would", the negative of these terms and similar terminology, including references to assumptions. All such statements are made pursuant to applicable Canadian securities legislation. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions.

Forward-looking statements, by their nature, involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, economic conditions, changes in demand due to the seasonal nature of the business, extreme weather conditions, climatic or geological disasters, war, political instability, real or perceived terrorism, outbreaks of epidemics or disease, consumer preferences and consumer habits, consumers' perceptions of the safety of destination services and aviation safety, demographic trends, disruptions to the air traffic control system, the cost of protective, safety and environmental measures, competition, the Corporation's ability to maintain and grow its reputation and brand, the availability of funding in the future, fluctuations in fuel prices and exchange rates and interest rates, the Corporation's dependence on key suppliers, the availability and fluctuation of costs related to our aircraft, information technology and telecommunications, changes in legislation, unfavourable regulatory developments or procedures, pending litigation and third party lawsuits, the ability to reduce operating costs, the Corporation's ability to attract and retain skilled resources, labour relations, collective bargaining and labour disputes, pension issues, maintaining insurance coverage at favourable levels and conditions and at an acceptable cost, and other risks detailed in the Risks and Uncertainties section of the MD&A included in our 2017 Annual Report.

The reader is cautioned that the foregoing list of factors is not exhaustive of the factors that may affect any of the Corporation's forward-looking statements. The reader is also cautioned to consider these and other factors carefully and not to place undue reliance on forward-looking statements.

The forward-looking statements in this MD&A are based on a number of assumptions relating to economic and market conditions as well as the Corporation's operations, financial position and transactions. Examples of such forward-looking statements include, but are not limited to, statements concerning:

- The outlook whereby the new hotel chain will strengthen Transat's profitability, particularly during winter.
- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.
- The outlook whereby the Corporation expects that for the fourth quarter of 2018 on the transatlantic market, higher fuel costs, combined with currency variations, will result in an increase in a 7.3% increase in operating costs if aircraft fuel prices remain stable and the dollar remains at its current level against the U.S. dollar, the euro and the pound.
- The outlook whereby the Corporation expects that its global results for the fourth quarter will be lower than last year.

- The outlook whereby the Corporation expects that for winter 2019 on the sun destinations market, the impact of increased fuel costs, combined with fluctuations in the Canadian dollar, will result in a 3.4% increase in operating expenses if aircraft fuel prices and the dollar against the U.S. dollar remain stable.

In making these statements, the Corporation has assumed, among other things, that travellers will continue to travel, that credit facilities will continue to be made available as in the past, that management will continue to manage changes in cash flows to fund working capital requirements for the full year and that fuel prices, foreign exchange rates, selling prices and hotel and other costs will remain stable. If these assumptions prove incorrect, actual results and developments may differ materially from those contemplated by the forward-looking statements contained in this MD&A.

The Corporation considers that the assumptions on which these forward-looking statements are based are reasonable.

These statements reflect current expectations regarding future events and operating performance, speak only as of the date this MD&A is issued, and represent the Corporation's expectations as of that date. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by applicable securities legislation.

## NON-IFRS FINANCIAL MEASURES

This MD&A was prepared using results and financial information determined under IFRS. In addition to IFRS financial measures, management uses non-IFRS measures to assess the Corporation's operational performance. It is likely that the non-IFRS financial measures used by the Corporation will not be comparable to similar measures reported by other issuers or those used by financial analysts as their measures may have different definitions. The measures used by the Corporation are intended to provide additional information and should not be considered in isolation or as a substitute for IFRS financial performance measures.

Generally, a non-IFRS financial measure is a numerical measure of an entity's historical or future financial performance, financial position or cash flows that is neither calculated nor recognized under IFRS. Management believes that such non-IFRS financial measures are important as they provide users of our consolidated financial statements with a better understanding of the results of our recurring operations and their related trends, while increasing transparency and clarity into our operating results. Management also believes these measures to be useful in assessing the Corporation's capacity to fulfill its financial obligations.

By excluding from our results items that arise mainly from long-term strategic decisions and/or do not, in our opinion, reflect our operating performance for the period, such as the change in fair value of fuel-related derivatives and other derivatives, gain (loss) on business disposals, restructuring charges, asset impairment, depreciation and amortization and other significant unusual items, and by including premiums for fuel-related derivatives and other derivatives matured during the period, we believe this MD&A helps users to better analyze our results, as well as our ability to generate cash flows from operations. Furthermore, the use of non-IFRS measures helps users by enabling better comparability of results from one period to another and better comparability with other businesses in our industry.

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The non-IFRS measures used by the Corporation are as follows:

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<b>Adjusted operating income (loss)</b>	Operating income (loss) before depreciation and amortization expense, restructuring charge and other significant unusual items, including premiums for fuel-related derivatives and other derivatives matured during the period. The Corporation uses this measure to assess the operational performance of its activities before the aforementioned items to ensure better comparability of financial results.
<b>Adjusted pre-tax income (loss)</b>	Income (loss) before income tax expense before change in fair value of fuel-related derivatives and other derivatives, gain (loss) on business disposals, restructuring charge, asset impairment and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period. The Corporation uses this measure to assess the financial performance of its activities before the aforementioned items to ensure better comparability of financial results.
<b>Adjusted net income (loss)</b>	Net income (loss) attributable to shareholders before net income (loss) from discontinued operations, change in fair value of fuel-related derivatives and other derivatives, gain (loss) on business disposals, restructuring charge, asset impairment and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period, net of related taxes. The Corporation uses this measure to assess the financial performance of its activities before the aforementioned items to ensure better comparability of financial results. Adjusted net income (loss) is also used in calculating the variable compensation of employees and senior executives.
<b>Adjusted net income (loss) per share</b>	Adjusted net income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.
<b>Adjusted operating leases</b>	Aircraft rental expense for the past four quarters multiplied by 5.
<b>Total debt</b>	Long-term debt plus the amount for adjusted operating leases. Management uses total debt to assess the Corporation's debt level, future cash needs and financial leverage ratio. Management believes this measure is useful in assessing the Corporation's capacity to meet its current and future financial obligations.
<b>Total net debt (Cash and cash equivalents, net of total debt)</b>	Total debt (described above) less cash and cash equivalents. Total net debt is used to assess the cash position relative to the Corporation's debt level. Management believes this measure is useful in assessing the Corporation's capacity to meet its current and future financial obligations.

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The following tables reconcile the non-IFRS financial measures to the most comparable IFRS financial measures:

(in thousands of Canadian dollars, except per share amounts)	Quarters ended		Nine-month periods	
	July 31		ended July 31	
	2018	2017	2018	2017
	\$	\$	\$	\$
Operating income (loss)	(7,994)	40,952	(62,536)	(24,780)
Restructuring charge	—	1,350	—	1,350
Depreciation and amortization	13,215	18,077	43,294	49,435
Premiums related to fuel-related derivatives and other derivatives matured during the period	(130)	(1,324)	(130)	(2,521)
<b>Adjusted operating income (loss)</b>	<b>5,091</b>	<b>59,055</b>	<b>(19,372)</b>	<b>23,484</b>
Income (loss) before income tax expense	(4,754)	37,731	(10,621)	(18,996)
Restructuring charge	—	1,350	—	1,350
Change in fair value of fuel-related derivatives and other derivatives	1,512	341	(9,069)	(3,533)
Gain on business disposals	—	—	(31,064)	—
Premiums related to fuel-related derivatives and other derivatives matured during the period	(130)	(1,324)	(130)	(2,521)
<b>Adjusted pre-tax income (loss)</b>	<b>(3,372)</b>	<b>38,098</b>	<b>(50,884)</b>	<b>(23,700)</b>
Net income (loss) attributable to shareholders	(4,038)	26,588	(3,943)	(13,839)
Restructuring charge	—	1,350	—	1,350
Change in fair value of fuel-related derivatives and other derivatives	1,512	341	(9,069)	(3,533)
Gain on business disposals	—	—	(31,064)	—
Premiums related to fuel-related derivatives and other derivatives matured during the period	(130)	(1,324)	(130)	(2,521)
Tax impact	(370)	(98)	2,764	1,261
<b>Adjusted net income (loss)</b>	<b>(3,026)</b>	<b>26,857</b>	<b>(41,442)</b>	<b>(17,282)</b>
Adjusted net income (loss)	(3,026)	26,857	(41,442)	(17,282)
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	37,463	36,997	37,351	36,937
<b>Adjusted net income (loss) per share</b>	<b>(0.08)</b>	<b>0.73</b>	<b>(1.11)</b>	<b>(0.47)</b>
			As at	As at
			July 31,	October 31,
			2018	2017
			\$	\$
Aircraft rent for the past four quarters			121,896	132,139
Multiple			5	5
<b>Adjusted operating leases</b>			<b>609,480</b>	<b>660,695</b>
Long-term debt			—	—
Adjusted operating leases			609,480	660,695
<b>Total debt</b>			<b>609,480</b>	<b>660,695</b>
Total debt			609,480	660,695
Cash and cash equivalents			(867,247)	(593,582)
<b>Total net debt (Cash and cash equivalents, net of total debt)</b>			<b>(257,767)</b>	<b>67,113</b>

## FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars, except per share amounts)	Quarters ended July 31				Nine-month periods ended July 31			
	2018	2017	Difference	Difference	2018	2017	Difference	Difference
	\$	\$	\$	%	\$	\$	\$	%
<b>Consolidated Statements of Income (Loss)</b>								
Revenues	696,551	733,152	(36,601)	(5.0)	2,324,314	2,306,794	17,520	0.8
Operating income (loss)	(7,994)	40,952	(48,946)	(119.5)	(62,536)	(24,780)	(37,756)	(152.4)
Net income (loss) attributable to shareholders	(4,038)	26,588	(30,626)	(115.2)	(3,943)	(13,839)	9,896	71.5
Basic earnings (loss) per share	(0.11)	0.72	(0.83)	(115.3)	(0.11)	(0.37)	0.26	70.3
Diluted earnings (loss) per share	(0.11)	0.72	(0.83)	(115.3)	(0.11)	(0.37)	0.26	70.3
Adjusted operating income (loss) <sup>(1)</sup>	5,091	59,055	(53,964)	(91.4)	(19,372)	23,484	(42,856)	(182.5)
Adjusted net income (loss) <sup>(1)</sup>	(3,026)	26,857	(29,883)	(111.3)	(41,442)	(17,282)	(24,160)	(139.8)
Adjusted net income (loss) per share <sup>(1)</sup>	(0.08)	0.73	(0.81)	(111.0)	(1.11)	(0.47)	(0.64)	(136.2)
<b>Consolidated Statements of Cash Flows</b>								
Operating activities	(16,401)	39,241	(55,642)	(141.8)	265,306	294,241	(28,935)	(9.8)
Investing activities	(17,243)	(19,807)	2,564	12.9	(17,094)	(73,035)	55,941	76.6
Financing activities	(761)	(1,321)	560	42.4	(820)	(2,992)	2,172	72.6
Effect of exchange rate changes on cash and cash equivalents	(1,648)	(3,662)	2,014	55.0	(51)	(1,139)	1,088	95.5
Net change in cash and cash equivalents	(36,053)	14,451	(50,504)	(349.5)	247,341	217,075	30,266	13.9
<b>Consolidated Statements of Financial Position</b>								
Cash and cash equivalents					867,247	593,582	273,665	46.1
Cash and cash equivalents in trust or otherwise reserved (current and non-current)					235,849	309,064	(73,215)	(23.7)
					1,103,096	902,646	200,450	22.2
Total assets					1,633,678	1,453,216	180,462	12.4
Debt (current and non-current)					—	—	—	—
Total debt <sup>(1)</sup>					609,480	660,695	(51,215)	(7.8)
Total net debt (Cash and cash equivalents, net of total debt) <sup>(1)</sup>					(257,767)	67,113	(324,880)	(484.1)

<sup>1</sup> SEE NON-IFRS FINANCIAL MEASURES

## OVERVIEW

### CORE BUSINESS

Transat is a leading integrated international tourism company specializing in holiday travel, which operates and markets its services in the Americas and Europe. It develops and markets holiday travel services in packages, including air travel and hotel stays, and air-only formats. Transat operates under the Transat and Air Transat brands mainly in Canada, France, the United Kingdom and in ten other European countries, directly or through intermediaries, as part of a multi-channel strategy. Transat is also a retail distributor, both online and through travel agencies, some of which it owns. It offers destination services in Mexico, the Dominican Republic and Jamaica. Recently, Transat started setting up a division with a mission to own and operate hotels in the Caribbean and Mexico and to market them, particularly in the United States, in Europe and in Canada.

### VISION

As a leader in holiday travel, Transat intends to pursue growth by inspiring trust in travellers and by offering them an experience that is exceptional, heart-warming and reliable. Our customers are our primary focus, and sustainable development of tourism is our passion. We intend to expand our range of operations and mission to include the hotel business.

### STRATEGY

As part of its 2018–2022 strategic plan, Transat set a two-pronged objective of building sustainable profitability: improve and strengthen its current business model, and pursue hotel development.

Hotel development will be achieved by creating a business unit to operate all-inclusive hotels in the Caribbean and Mexico, some wholly-owned and some not. This hotel chain will strengthen Transat's profitability, particularly during winter, while enabling it to deliver a controlled end-to-end experience to its Canadian customers.

Furthermore, Transat will strengthen its current model by maintaining its focus on satisfying the expectations of leisure customers with user-friendly service at affordable prices. This will be made possible by greater synergy between the Corporation's various divisions in Canada, continued efforts to increase efficiency and reduce costs, continuous improvement in the Corporation's digital footprint and a special focus on the development of certain functions, such as revenue management or air network planning.

Lastly, corporate responsibility, whether in terms of the environment, customers, employees or partners, will remain a key part of Transat's strategy.

For 2018, Transat has set the following objectives at the beginning of the reporting period:

1. Launch a wholly-owned Transat hotel chain: set up the team, develop the concept and select the brand, and initiate the first acquisitions of hotels and/or land.
2. Improve efficiency, in particular by improving revenue management, pricing and aircraft utilization and by pursuing its cost reduction policy.
3. Improve distribution by continuing to grow direct sales, refining channel management and strengthening our presence in mobile technologies.
4. Enhance customer proximity, particularly through centralized records management and satisfaction metrics.
5. Strengthen our commitment to corporate responsibility, particularly by obtaining Travelife certification and refining our employee satisfaction metrics.

Our key performance drivers are adjusted operating income (loss), market share, and revenue growth, which are essential to successfully implement our strategy and meet our objectives.



Our ability to deliver on our objectives is dependent on our financial and non-financial resources, both of which have contributed in the past to the success of our strategies and achievement of our objectives. Our financial resources consist primarily of cash not held in trust or otherwise reserved and the undrawn balances of our credit facilities. Our non-financial resources include our brand, structure, employees and relationships with suppliers.

## REVISITING OUR JUNE 13, 2018 OUTLOOK

In the MD&A for the period ended April 30, 2018, the Corporation indicated that, provided that the current trends hold, and considering the recent significant increase in aircraft fuel costs, Transat expected that its global results for the second six-month period to be lower than those of 2017. For the third quarter of 2018, the main indicators, including currency exchange and aircraft fuel prices, were similar to those observed on June 13, 2018. Therefore, the results for the third quarter of 2018 were in line with expectations.

## BUSINESS DISPOSALS

### JONVIEW CANADA INC.

On November 30, 2017, the Corporation completed the sale of its wholly-owned subsidiary Jonview Canada Inc. ["Jonview"], which has an incoming tour operator business in Canada, to Japanese multinational H.I.S. Co. Ltd., which specializes in travel distribution, following approval of the transaction by the Competition Bureau of Canada and compliance with other customary conditions. Under the terms of the agreement, the selling price was adjusted downward owing to a working capital adjustment of \$0.6 million, paid to H.I.S. Co. Ltd. on March 29, 2018, and totals \$48.9 million, of which \$47.3 million was received in cash on November 30, 2017. The disposed subsidiary's net assets amounted to \$13.4 million on November 30, 2017. The Corporation recognized a gain on business disposal of \$31.3 million, net of transaction costs of \$0.5 million and of \$3.7 million due to the Fonds de Solidarité des Travailleurs du Québec ["Fonds"], of which \$3.3 million was paid in cash during the first quarter, as an additional consideration to the repurchase price of the 19.93% interest held by the Fonds in December 2016.

Since Jonview's operations do not represent a principal and separate line of business for the Corporation, its results are included in the Corporation's net income from continuing operations reported in the consolidated statements of income and comprehensive income for the nine-month period ended July 31, 2018. As at October 31, 2017, the assets and liabilities of Jonview were reported as held for sale in the consolidated statements of financial position.

### OCEAN HOTELS

On October 4, 2017, the Corporation completed the sale of its 35% minority interest in Ocean Hotels to H10 Hotels for an amount of US\$150.5 million [\$187.5 million], received in cash. The disposed interest had a carrying value of \$97.3 million as at October 4, 2017. During the year ended October 31, 2017, the Corporation recognized a gain on business disposal of \$86.6 million, net of transaction costs of \$1.7 million, as well as a foreign exchange gain of \$15.5 million realized on the reclassification of the cumulative exchange differences related to the investment.

Under the terms of the agreement, on March 8, 2018, the selling price was adjusted downward by US\$1.5 million [\$1.9 million] to US\$149.0 million [\$185.6 million]. As a result of additional transaction costs incurred in connection with the closing of the transaction, the Corporation also recognized a downward adjustment of \$0.2 million to the gain on business disposal, bringing the total amount of the gain on disposal of Ocean Hotels to \$86.4 million. Transat remains committed to becoming a full-fledged hotel operator and sold its minority interest in Ocean Hotels to accelerate the development of its own sun destination hotel chain.

## CONSOLIDATED OPERATIONS

(in thousands of dollars)	Quarters ended July 31				Nine-month periods ended July 31			
	2018 \$	2017 \$	Difference \$	Difference %	2018 \$	2017 \$	Difference \$	Difference %
<b>Revenues</b>	<b>696,551</b>	<b>733,152</b>	<b>(36,601)</b>	<b>(5.0)</b>	<b>2,324,314</b>	<b>2,306,794</b>	<b>17,520</b>	<b>0.8</b>
<b>Operating expenses</b>								
Costs of providing tourism services	173,939	245,812	(71,873)	(29.2)	974,883	1,080,749	(105,866)	(9.8)
Aircraft fuel	158,018	106,394	51,624	48.5	341,878	254,205	87,673	34.5
Salaries and employee benefits	100,060	96,788	3,272	3.4	290,488	277,289	13,199	4.8
Aircraft maintenance	62,708	46,222	16,486	35.7	170,540	140,805	29,735	21.1
Airport and navigation fees	44,864	39,592	5,272	13.3	105,708	96,152	9,556	9.9
Aircraft rent	32,090	32,390	(300)	(0.9)	95,611	105,854	(10,243)	(9.7)
Commissions	11,072	11,920	(848)	(7.1)	78,079	80,831	(2,752)	(3.4)
Other airline costs	73,803	61,782	12,021	19.5	183,865	160,298	23,567	14.7
Other	35,119	33,428	1,691	5.1	103,197	95,607	7,590	7.9
Share of net income of an associate and a joint venture	(343)	(1,555)	1,212	(77.9)	(693)	(11,001)	10,308	(93.7)
Depreciation and amortization	13,215	18,077	(4,862)	(26.9)	43,294	49,435	(6,141)	(12.4)
Special items	—	1,350	(1,350)	(100.0)	—	1,350	(1,350)	(100.0)
	<b>704,545</b>	<b>692,200</b>	<b>12,345</b>	<b>1.8</b>	<b>2,386,850</b>	<b>2,331,574</b>	<b>55,276</b>	<b>2.4</b>
<b>Operating income (loss)</b>	<b>(7,994)</b>	<b>40,952</b>	<b>(48,946)</b>	<b>(119.5)</b>	<b>(62,536)</b>	<b>(24,780)</b>	<b>(37,756)</b>	<b>(152.4)</b>
Financing costs	424	557	(133)	(23.9)	1,504	1,456	48	3.3
Financing income	(4,725)	(2,045)	(2,680)	131.1	(13,307)	(5,645)	(7,662)	135.7
Change in fair value of fuel-related derivatives and other derivatives	1,512	341	1,171	343.4	(9,069)	(3,533)	(5,536)	(156.7)
Gain on business disposals	—	—	—	—	(31,064)	—	(31,064)	100.0
Foreign exchange loss (gain) on non-current monetary items	(451)	4,368	(4,819)	(110.3)	21	1,938	(1,917)	(98.9)
<b>Income (loss) before income tax expense</b>	<b>(4,754)</b>	<b>37,731</b>	<b>(42,485)</b>	<b>(112.6)</b>	<b>(10,621)</b>	<b>(18,996)</b>	<b>8,375</b>	<b>44.1</b>
<b>Income taxes (recovery)</b>								
Current	(130)	8,794	(8,924)	(101.5)	(2,417)	(9,009)	6,592	73.2
Deferred	(939)	1,769	(2,708)	(153.1)	(7,773)	54	(7,827)	(14,494.4)
	<b>(1,069)</b>	<b>10,563</b>	<b>(11,632)</b>	<b>(110.1)</b>	<b>(10,190)</b>	<b>(8,955)</b>	<b>(1,235)</b>	<b>(13.8)</b>
<b>Net income (loss) for the period</b>	<b>(3,685)</b>	<b>27,168</b>	<b>(30,853)</b>	<b>(113.6)</b>	<b>(431)</b>	<b>(10,041)</b>	<b>9,610</b>	<b>95.7</b>
<b>Net income (loss) attributable to:</b>								
Shareholders	(4,038)	26,588	(30,626)	(115.2)	(3,943)	(13,839)	9,896	71.5
Non-controlling interests	353	580	(227)	(39.1)	3,512	3,798	(286)	(7.5)
	<b>(3,685)</b>	<b>27,168</b>	<b>(30,853)</b>	<b>(113.6)</b>	<b>(431)</b>	<b>(10,041)</b>	<b>9,610</b>	<b>95.7</b>

## REVENUES

We generate our revenues from outgoing tour operators, air transportation, travel agencies, distribution, incoming tour operators and services at travel destinations.

Compared with 2017, revenues were down \$36.6 million (5.0%) for the quarter ended July 31, 2018 and increased by \$17.5 million (0.8%) for the nine-month period. For the quarter, the decrease in revenues was due to the sale of our Jonview subsidiary. The decrease was partially offset by an 11.5% rise in the number of travellers in the transatlantic market, our main market for the period, resulting from our decision to increase our capacity by 13.9% in that market. The decrease in revenues was also partially offset by a 7.0% increase in our capacity in the sun destinations market, which resulted in a 7.9% rise in the number of travellers in that market. During the quarter, average selling prices were similar to those of 2017 across all of our markets.

For the nine-month period, the increase was mainly attributable to our winter season, which saw a 5.4% rise in the number of travellers in the sun destinations market, our main market for the period, resulting from our decision to increase our capacity by 7.7% in that market. The increase was also accentuated by an 18.1% addition to our capacity in the transatlantic market, resulting in a 14.8% rise in the number of travellers in that market. In addition, average selling prices slightly increased across all of our markets during the winter season. The increase in revenues was partially offset by the sale of our Jonview subsidiary and by the achievement of our development objective for flight-only sales compared to 2017.

## OPERATING EXPENSES

Total operating expenses were up \$12.3 million (1.8%) for the quarter and \$55.3 million (2.4%) for the nine-month period, compared with 2017. For the quarter, the increase resulted mainly from the higher fuel price indices combined with the increase in the number of travellers, driven by our decision to increase our capacity across all of our markets. The increase in operating expenses was partially offset by the decrease in the number of person-nights sold in Canada following the sale of our Jonview subsidiary and the strengthening of the dollar against the U.S. dollar.

For the nine-month period, the increase was mainly attributable to our winter season, which saw a rise in the number of travellers, driven by our decision to increase our capacity by 7.7% in the sun destinations market, our main market for the period, partially offset by the strengthening of the dollar against the U.S. dollar.

### COSTS OF PROVIDING TOURISM SERVICES

Costs of providing tourism services are incurred by our tour operators. They include hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat. Compared with 2017, these costs were down \$71.9 million (29.2%) for the quarter and \$105.9 million (9.8%) for the nine-month period. For the quarter, the lower costs were attributable to the decrease in the number of person-nights sold in Canada following the sale of our Jonview subsidiary. For the nine-month period, higher costs resulting from the increase in the number of travellers were more than offset by the decrease in the number of person-nights sold in Canada following the sale of our Jonview subsidiary and the strengthening of the dollar against the U.S. dollar.

### AIRCRAFT FUEL

Aircraft fuel expense was up \$51.6 million (48.5%) for the quarter and \$87.7 million (34.5%) for the nine-month period. These increases were mainly attributable to a rise in fuel price indices in financial markets combined with higher capacity compared with 2017. These increases were partially offset by the strengthening of the dollar against the U.S. dollar.

### SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits were up \$3.3 million (3.4%) for the quarter and \$13.2 million (4.8%) for the nine-month period, compared with 2017. These increases resulted primarily from annual salary reviews and the hiring of pilots and flight attendants due to higher capacity compared with 2017.

### AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat for leased aircraft. Compared with 2017, these costs increased by \$16.5 million (35.7%) for the quarter and by \$29.7 million (21.1%) for the nine-month period. For the quarter, the increase was attributable to the expansion of our fleet compared with 2017, the adverse effect of foreign exchange and the favourable impact of adjustments made in 2017 to future repair costs assumptions. For the nine-month period, the increase was attributable to the expansion of our fleet compared with 2017, the favourable impact of adjustments made in 2017 to future repair costs assumptions and more significant repairs than last year.

### AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These costs were up \$5.3 million (13.3%) for the quarter and \$9.6 million (9.9%) for the nine-month period compared with 2017, driven primarily by an increase in our capacity from 2017.

### AIRCRAFT RENT

Aircraft rent decreased by \$0.3 million (0.9%) during the quarter and by \$10.2 million (9.7%) during the nine-month period as a result of the renegotiation of lease agreements for Airbus A330s which are already part of our fleet and the strengthening of the dollar against the U.S. dollar, despite the fact that the number of leased aircraft has increased compared with last year.

#### COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense decreased by \$0.8 million (7.1%) for the quarter and by \$2.8 million (3.4%) for the nine-month period, compared with 2017. As a percentage of revenues, commissions remained stable and accounted for 1.6% of revenues for the quarter. For the nine-month period, commissions decreased and accounted for 3.4% of revenues, compared with 3.5% in 2017. These decreases resulted from the lower revenue base used to calculate commissions.

#### OTHER AIR COSTS

Other air costs consist mainly of handling, crew and catering costs. Other air costs were up \$12.0 million (19.5%) for the quarter and \$23.6 million (14.7%) for the nine-month period, compared with 2017. These increases were primarily due to a higher capacity compared with 2017.

#### OTHER

Other expenses were up \$1.7 million (5.1%) for the quarter and \$7.6 million (7.9%) for the nine-month period, compared with 2017. These increases were primarily due to higher digital marketing costs.

#### SHARE OF NET INCOME OF AN ASSOCIATE AND A JOINT VENTURE

In 2018, our share of net income of an associate and a joint venture represents our share of the net income of Desarrollo Transimar, a hotel joint venture acquired in 2017. For the corresponding quarter and nine-month period of 2017, our share of net income of an associate and a joint venture mainly represented our share of the net income of Ocean Hotels, which was sold on October 4, 2017. Our share of net income for the third quarter totalled \$0.3 million, compared with \$1.6 million for the corresponding quarter of 2017. For the nine-month period, our share of net income totalled \$0.7 million, compared with \$11.0 million for 2017. These decreases resulted from the sale of our interest in Ocean Hotels.

#### DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense includes depreciation and amortization as well as impairment losses relating to property, plant and equipment, intangible assets and deferred lease incentives. Depreciation and amortization expense was down \$4.9 million (26.9%) for the third quarter and \$6.1 million (12.4%) for the nine-month period, compared with 2017. These decreases resulted primarily from a reduction in capitalized maintenance on Airbus A310s, which will be retired from the fleet over the next two years, and an extension of the amortization period of leasehold improvements as a result of the renegotiation of lease agreements for Airbus A330s that are already part of our fleet.

### OPERATING RESULTS

Given the above, we recorded an operating loss of \$8.0 million (1.1%) for the third quarter, compared with an operating income of \$41.0 million (5.6%) in 2017. For the quarter, the decrease in our operating results was attributable to the increase in fuel prices which, combined with the foreign exchange effect, resulted in a \$40.3 million increase in our operating expenses. The decrease in our operating results was accentuated by the disposal of our wholly-owned subsidiary Jonview and our minority interest in Ocean Hotels, which added \$7.1 million to operating results in 2017.

For the nine-month period, we recorded an operating loss of \$62.5 million (2.7%), compared with \$24.8 million (1.1%) in 2017. During winter, operating results improved by \$11.2 million. For the third quarter, the decrease in our operating results was attributable to the increase in fuel prices which, combined with the foreign exchange effect, resulted in a \$40.3 million increase in our operating expenses. The decrease in our operating results was accentuated by the disposal of our wholly-owned subsidiary Jonview and our minority interest in Ocean Hotels, which added \$7.1 million to operating results in 2017.

For the quarter, the Corporation reported an adjusted operating income of \$5.1 million (0.7%), compared with \$59.1 million (8.1%) in 2017. For the nine-month period, the Corporation recorded an adjusted operating loss of \$19.4 million (0.8%), compared with an adjusted operating income of \$23.5 million (1.0%) in 2017.

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## OTHER EXPENSES AND REVENUES

### FINANCING COSTS

Financing costs include interest on long-term debt and other interest, standby fees, as well as financial expenses. Financing costs were down \$0.1 million (23.9%) for the third quarter and remained stable for the nine-month period, compared with 2017.

### FINANCING INCOME

Financing income was up \$2.7 million (131.1%) for the third quarter and \$7.7 million (135.7%) for the nine-month period, compared with 2017. The increases were attributable to the rise in cash and cash equivalents compared with 2017 and higher interest rates than in the corresponding periods of 2017.

### CHANGE IN FAIR VALUE OF FUEL-RELATED DERIVATIVES AND OTHER DERIVATIVES

The change in fair value of fuel-related derivatives and other derivatives corresponds to the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices and foreign exchange. During the quarter, the fair value of fuel-related derivatives and other derivatives decreased by \$1.5 million compared with \$0.3 million in 2017. For the nine-month period, the fair value of fuel-related derivatives and other derivatives was up \$9.1 million, compared with \$3.5 million in 2017. For the quarter, the decrease was due the maturing of fuel-related derivatives, partially offset by the rise in the fair value of derivatives. For the nine-month period, the increase was attributable to the rise in the fair value of derivatives, partially offset by the maturing of fuel-related derivatives.

### GAIN ON BUSINESS DISPOSALS

On November 30, 2017, the Corporation completed the sale of its wholly-owned subsidiary Jonview for a consideration of \$48.9 million, of which \$47.3 million was received in cash on that date. The Corporation recognized a gain on business disposal of \$31.3 million. Following the sale of its 35% minority interest in Ocean Hotels on October 4, 2017, the Corporation recorded a downward adjustment to the gain on business disposal of \$0.2 million during the nine-month period ended July 31, 2018.

### FOREIGN EXCHANGE LOSS (GAIN) ON NON-CURRENT MONETARY ITEMS

During the quarter, the Corporation recognized a \$0.5 million foreign exchange gain on non-current monetary items, compared with a foreign exchange loss of \$4.4 million in 2017. For the nine-month period, the Corporation recorded a foreign exchange loss of \$0.0 million on non-current monetary items, compared with \$1.9 million in 2017. For the quarter, the change was principally due to favourable exchange rates on foreign currency deposits, as a result of the weakening of the dollar against the U.S. dollar.

## INCOME TAXES

Income tax recovery for the third quarter totalled \$1.1 million, compared with an income tax expense of \$10.6 million for the corresponding quarter of last year. Income tax recovery for the nine-month period amounted to \$10.2 million compared with \$9.0 million in 2017. Excluding the gain on business disposals and the share of net income of an associate and a joint venture, the effective tax rate was 21.0% for the quarter and 24.0% for the nine-month period, compared with 29.2% and 29.9%, respectively, for the corresponding periods of 2017. The change in tax rates for the quarter was due to the differences in statutory tax rates by country applicable to the foreign subsidiaries' results.

## NET INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS

Considering the items discussed in the Consolidated operations section, net loss for the quarter ended July 31, 2018 was \$3.7 million, compared with a net income of \$27.2 million in 2017. Net loss attributable to shareholders amounted to \$4.0 million or \$0.11 per share (basic and diluted) compared with a net income of \$26.6 million or \$0.72 per share (basic and diluted) for the corresponding quarter of last year. For the third quarter of 2018, the weighted average number of outstanding shares used to compute earnings per share was 37,463,000 (basic and diluted), compared with 36,991,000 (36,997,000 for diluted earnings per share), for the corresponding quarter of 2017.

For the nine-month period ended July 31, 2018, net loss was \$0.4 million, compared with \$10.0 million in 2017. Net loss attributable to shareholders amounted to \$3.9 million or \$0.11 per share (basic and diluted) compared with \$13.8 million or \$0.37 per share (basic and diluted) for the corresponding nine-month period of last year. For the nine-month period of 2018, the weighted average number of outstanding shares used to compute earnings per share was 37,351,000 (basic and diluted), compared with 36,937,000 (basic and diluted) for the corresponding period of 2017.

For the quarter and nine-month period ended July 31, 2018, adjusted net loss was \$3.0 million (\$0.08 per share) and \$41.4 million (\$1.11 per share), respectively, compared with an adjusted net income of \$26.9 million (\$0.73 per share) and an adjusted net loss of \$17.3 million (\$0.47 per share), for the corresponding periods of 2017.

## SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Revenues increased compared with the corresponding quarters, with the exception of the third quarter which recorded a decrease compared with the previous year. For the winter season (Q1 and Q2), following our decision to increase our capacity across all of our markets, the number of travellers and average selling prices were up. For the summer season, the number of travellers was up across all of our markets compared with the previous year. For the first part of summer 2018 (Q3), the decrease in revenues was attributable to the sale of our Jonview subsidiary. For the second part of summer 2017 (Q4), average selling prices were up across all of our markets.

In terms of operating results, for the winter season (Q1 and Q2), the decrease in our operating loss was primarily due to a higher number of travellers, combined with an increase in average selling prices across all of our markets, as well as the favourable foreign exchange effect on our costs. For the first half of summer 2018 (Q3), the deterioration of our operating results was mainly attributable to higher fuel prices, combined with the foreign exchange effect. For the second half of summer 2017 (Q4), the improvement in our operating income was driven by an increase in the number of travellers, combined with higher average selling prices and load factors across all of our markets. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information								
(in thousands of dollars, except per share data)	Q4-2016	Q1-2017	Q2-2017	Q3-2017	Q4-2017	Q1-2018	Q2-2018	Q3-2018
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	612,111	689,332	884,310	733,152	698,551	725,782	901,981	696,551
Aircraft rent	32,843	36,103	37,361	32,390	26,285	30,169	33,352	32,090
Operating income (loss)	26,898	(50,671)	(15,061)	40,952	59,500	(45,795)	(8,747)	(7,994)
Net income (loss)	36,313	(31,054)	(6,155)	27,168	148,413	(5,233)	8,487	(3,685)
Net income (loss) attributable to shareholders	34,920	(32,073)	(8,354)	26,588	148,147	(6,588)	6,683	(4,038)
Basic earnings (loss) per share	0.95	(0.87)	(0.23)	0.72	4.00	(0.18)	0.18	(0.11)
Diluted earnings (loss) per share	0.95	(0.87)	(0.23)	0.72	3.97	(0.18)	0.18	(0.11)
Net income (loss) from continuing operations attributable to shareholders	(20,497)	(32,073)	(8,354)	26,588	148,147	(6,588)	6,683	(4,038)
Basic earnings (loss) per share from continuing operations	(0.56)	(0.87)	(0.23)	0.72	4.00	(0.18)	0.18	(0.11)
Diluted earnings (loss) per share from continuing operations	(0.56)	(0.87)	(0.23)	0.72	3.97	(0.18)	0.18	(0.11)
Adjusted operating income (loss) <sup>(1)</sup>	46,497	(37,079)	1,508	59,055	78,541	(31,026)	6,563	5,091
Adjusted net income (loss) <sup>(1)</sup>	24,183	(36,039)	(8,100)	26,857	46,381	(33,868)	(4,548)	(3,026)
Adjusted net income (loss) per share <sup>(1)</sup>	0.66	(0.98)	(0.22)	0.73	1.24	(0.91)	(0.12)	(0.08)

<sup>1</sup> SEE NON-IFRS FINANCIAL MEASURES



## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at July 31, 2018, cash and cash equivalents totalled \$867.2 million compared with \$593.6 million as at October 31, 2017. Cash and cash equivalents in trust or otherwise reserved amounted to \$235.8 million at the end of the third quarter of 2018, compared with \$309.1 million as at October 31, 2017. The Corporation's statement of financial position reflected \$370.3 million in working capital, for a ratio of 1.40, compared with \$386.6 million and a ratio of 1.51 as at October 31, 2017.

Total assets increased by \$180.5 million (12.4%), from \$1,453.2 million as at October 31, 2017 to \$1,633.7 million as at July 31, 2018. This increase is explained in the financial position table provided below. Equity decreased by \$1.2 million, from \$577.9 million as at October 31, 2017 to \$576.7 million as at July 31, 2018. This decrease resulted from a \$3.9 million net loss attributable to shareholders, combined with a \$2.9 million unrealized loss on cash flow hedges, partially offset by a \$2.1 million foreign exchange gain on the translation of the financial statements of foreign subsidiaries.

### CASH FLOWS

	Quarters ended July 31			Nine-month periods ended July 31		
	2018	2017	Difference	2018	2017	Difference
(in thousands of dollars)	\$	\$	\$	\$	\$	\$
Cash flows related to operating activities	(16,401)	39,241	(55,642)	265,306	294,241	(28,935)
Cash flows related to investing activities	(17,243)	(19,807)	2,564	(17,094)	(73,035)	55,941
Cash flows related to financing activities	(761)	(1,321)	560	(820)	(2,992)	2,172
Effect of exchange rate changes on cash	(1,648)	(3,662)	2,014	(51)	(1,139)	1,088
<b>Net change in cash and cash equivalents</b>	<b>(36,053)</b>	<b>14,451</b>	<b>(50,504)</b>	<b>247,341</b>	<b>217,075</b>	<b>30,266</b>

#### OPERATING ACTIVITIES

Operating activities used cash flows of \$16.4 million during the third quarter, compared with generated cash flows of \$39.2 million in 2017. The \$55.6 million decrease resulted primarily from a \$40.3 million reduction in net income before operating items not involving an outlay (receipt) of cash, combined with a \$19.2 million decrease in the net change in non-cash working capital balances related to operations. The decrease was partially offset by an \$8.8 million increase in the net change in the provision for overhaul of leased aircraft.

For the nine-month period, cash flows from operating activities decreased by \$28.9 million from \$294.2 million in 2017 to \$265.3 million in 2018. The decrease resulted primarily from a \$31.2 million reduction in the net loss before operating items not involving an outlay (receipt) of cash, combined with a \$16.2 million decrease in the net change in non-cash working capital balances related to operations. The decrease was partially offset by a \$9.3 million increase in the net change in other assets and liabilities related to operations and a \$9.2 million increase in the net change in the provision for overhaul of leased aircraft.

#### INVESTING ACTIVITIES

Cash flows used in investing activities amounted to \$17.2 million for the third quarter compared with \$19.8 million in 2017, representing a decrease of \$2.6 million. The decrease was attributable to an additional investment of \$2.6 million in our joint venture Desarrollo Transimar in 2017. Additions to property, plant and equipment and intangible assets for the quarter were stable compared with the same period of 2017.

For the nine-month period, cash flows used in investing activities amounted to \$17.1 million compared with \$73.0 million in 2017, representing a decrease of \$55.9 million. The decrease was primarily due to the \$28.6 million consideration received, net of cash disposed of, for the disposal of our Jonview subsidiary. Moreover, during the corresponding period of 2017, the Corporation invested \$15.3 million in Desarrollo Transimar and paid a \$5.0 million consideration for the acquisition of all the shares of the Jonview subsidiary. Lastly, additions to property, plant and equipment and intangible assets were \$6.6 million lower than in 2017. Additions related to maintenance and aircraft equipment were higher last year.

#### FINANCING ACTIVITIES

Cash flows used in financing activities totalled \$0.8 million for the third quarter of 2018, down \$0.6 million from \$1.3 million for the same quarter of 2017. Cash flows used in financing activities for the nine-month period amounted to \$0.8 million compared with \$3.0 million in 2017. The \$2.2 million decrease in cash flows used for the nine-month period was primarily attributable to the exercise of options totalling \$1.8 million in 2018 compared with nil options exercised in 2017.

CONSOLIDATED FINANCIAL POSITION

	July 31, 2018 \$	October 31, 2017 \$	Difference \$	Main reasons for significant differences
<b>Assets</b>				
Cash and cash equivalents	867,247	593,582	273,665	See the Cash flows section
Cash and cash equivalents in trust or otherwise reserved	235,849	309,064	(73,215)	Seasonal nature of operations
Trade and other receivables	152,658	121,618	31,040	Increase in receivables from lessors due to aircraft maintenance and in sales taxes receivable
Income taxes receivable	22,409	17,418	4,991	Increase in income taxes recoverable given deductible losses
Inventories	12,527	12,790	(263)	No significant difference
Prepaid expenses	41,681	64,245	(22,564)	Decrease in prepayments to hotels due to the seasonal nature of operations
Deposits	53,962	52,129	1,833	Increase in deposits related to aircraft
Assets held for sale	—	47,472	(47,472)	Sale of our Jonview subsidiary in November 2017
Deferred tax assets	23,560	16,286	7,274	Increase in non-capital losses carried forward
Property, plant and equipment	136,083	134,672	1,411	Additions during the period, partially offset by
Intangible assets	47,122	49,604	(2,482)	Amortization for the period, partially offset by additions
Derivative financial instruments	23,450	18,058	5,392	Favourable change in fuel prices compared with forward contracts entered into
Investment	16,736	15,888	848	Share of net income of a joint venture
Other assets	394	390	4	No significant difference
<b>Liabilities</b>				
Trade and other payables	332,586	245,013	87,573	Increase in business volume and seasonal nature of operations
Provision for overhaul of leased aircraft	59,890	47,917	11,973	Increase in the number of aircraft leased
Income taxes payable	959	8,102	(7,143)	Settlement of balances due
Derivative financial instruments	7,243	8,278	(1,035)	Maturing of foreign exchange derivatives during the period
Liabilities related to assets held for sale	—	33,109	(33,109)	Sale of our Jonview subsidiary in November 2017
Customer deposits and deferred revenues	561,769	433,897	127,872	Seasonal nature of operations and increase in business volume
Other liabilities	93,737	96,813	(3,076)	Amortization of deferred lease incentives related to aircraft
Deferred tax liabilities	792	2,217	(1,425)	Increase in non-capital losses carried forward
<b>Equity</b>				
Share capital	219,276	215,444	3,832	Exercise of options and issuance of shares from treasury
Share-based payment reserve	17,549	17,817	(268)	Vesting of PSUs and exercise of options, partially offset by share-based payment expense
Retained earnings	347,195	351,138	(3,943)	Net loss
Unrealized gain (loss) on cash flow hedges	1,644	4,532	(2,888)	Net loss on financial instruments designated as cash flow hedges
Cumulative exchange differences	(8,962)	(11,061)	2,099	Foreign exchange gain on translation of financial statements of foreign subsidiaries



## FINANCING

As at September 12, 2018, the Corporation had several types of financing, consisting primarily of a revolving term credit facility and lines of credit for issuing letters of credit.

On May 11, 2018, the Corporation renewed its \$50 million revolving credit facility agreement for operating purposes. Under the new agreement, which expires in 2022, the Corporation may increase the credit limit to \$100 million, subject to lender approval. The agreement may be extended for a year on each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries, subject to certain exceptions, and is further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at July 31, 2018, all the financial ratios and criteria were met and the credit facility was undrawn.

### OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and cash flows, some of which are reported as liabilities in the interim condensed consolidated financial statements and others are disclosed in the notes to the financial statements. The Corporation did not report any obligations in the statement of financial position as at July 31, 2018 and October 31, 2017.

Obligations that are not reported as liabilities are considered off-balance sheet arrangements. These contractual arrangements are entered into with non-consolidated entities and consist of the following:

- Guarantees
- Operating leases

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately \$2,368.5 million as at July 31, 2018 (\$1,745.2 million as at October 31, 2017) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	As at July 31, 2018 \$	As at October 31, 2017 \$
<b>Guarantees</b>		
Irrevocable letters of credit	29,885	27,137
Collateral security contracts	415	701
<b>Operating leases</b>		
Obligations under operating leases	2,338,169	1,717,383
	<b>2,368,469</b>	<b>1,745,221</b>

In the normal course of business, guarantees are required in the travel industry to provide indemnifications and guarantees to counterparties in transactions such as operating leases, irrevocable letters of credit and collateral security contracts. Historically, Transat has not made any significant payments under such guarantees. Operating leases are entered into to enable the Corporation to lease certain items rather than acquire them.

The Corporation has a \$75.0 million annually renewable revolving credit facility in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at July 31, 2018, \$56.1 million had been drawn down under the facility, of which \$51.2 million was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

On February 27, 2018, the Corporation renewed its collateral security facility. Under this agreement, which is now renewable in 2020, the Corporation may issue collateral security contracts with a maximum three-year term and for a total amount of \$50.0 million. This facility allows the Corporation, among other things, to issue collateral security contracts to some suppliers to whom letters of credit were previously issued and for which the Corporation had to pledge cash for the total amount of the outstanding letters of credit. As at July 31, 2018, \$29.5 million was drawn down under this credit facility for issuing letters of credit to some of our service providers.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £8.4 million (\$14.3 million), which has been fully drawn down.

As at July 31, 2018, off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had increased by \$623.2 million compared with October 31, 2017. This increase resulted primarily from the agreements signed during the quarter to lease two Airbus A321neos and five Airbus A321neo LR, for delivery from 2020 to 2022, which will notably replace the wide-body Airbus A330s whose leases will expire during that period. These agreements are added to those entered into during the first quarter to lease two Airbus A321ceos and two Airbus A330s. The increase was partially offset by the repayments made during the period.

We believe that the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

#### DEBT LEVELS

The Corporation did not report any debt on its statement of financial position.

The Corporation's total debt amounted to \$609.5 million as at July 31, 2018, down \$51.2 million from October 31, 2017, owing to the renegotiation of lease agreements for Airbus A330s.

Total net debt decreased by \$324.9 million from \$67.1 million as at October 31, 2017 to cash and cash equivalents net of total debt of \$257.8 million as at July 31, 2018. The decrease in total net debt resulted from higher cash and cash equivalent balances than in 2017, combined with a reduction in total debt.

#### OUTSTANDING SHARES

As at July 31, 2018, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at September 7, 2018, there were 37,528,688 total voting shares outstanding.

#### STOCK OPTIONS

As at September 7, 2018, there were a total of 1,786,588 stock options outstanding, 1,369,232 of which were exercisable.

### OTHER

#### FLEET

Air Transat's fleet currently consists of twenty Airbus A330s (332, 345 or 375 seats), including four commissioned during 2018, seven Airbus A310s (250 seats), five Boeing 737-800s (189 seats) and two Airbus A321ceos (199 seats) which were commissioned in the third quarter of 2018.

During winter 2018, the Corporation also had seasonal rentals for twelve Boeing 737-800s (189 seats), four Boeing 737-700s (149 seats) and two Airbus A320s (199 seats).

## FUTURE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective are discussed below. The Corporation has not early adopted these new standards.

### IFRS 9, *FINANCIAL INSTRUMENTS*

In July 2014, the IASB completed its three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*, by issuing IFRS 9, *Financial Instruments*. IFRS 9 addresses the classification and measurement of financial assets and financial liabilities, and introduces a forward-looking expected loss impairment model as well as a substantially reformed approach to hedge accounting.

IFRS 9 uses a new approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach recommended by IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability at fair value through profit or loss, will be presented in other comprehensive income rather than in the statement of income.

IFRS 9 also introduces a new expected-loss impairment model that will require timely recognition of expected credit losses. Specifically, entities will be required to account for expected credit losses when financial instruments are first recognized and to recognize full lifetime expected credit losses on a timely basis.

Lastly, IFRS 9 introduces a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. The IFRS 9 transition rules include an exemption allowing companies to continue to apply current hedge accounting under IAS 39 until the final hedge model is effective.

Application of IFRS 9 will be effective for the Corporation's annual reporting period beginning on November 1, 2018, with earlier adoption permitted. Other than the potential impact of adopting optional hedge accounting in accordance with IFRS 9, the Corporation does not expect the adoption of IFRS 9 to have a material impact on its financial statements. The Corporation continues to assess the impact of the adoption of IFRS 9 on its financial statements, including the decision regarding the hedge accounting transition.

### IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard that specifies the steps and timing of revenue recognition for issuers as well as requiring them to provide relevant and more comprehensive disclosures. The core principle of IFRS 15 is that an entity should recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the expected consideration receivable in exchange for those goods or services. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. The application of IFRS 15 is mandatory and will be effective for the Corporation's annual reporting period beginning on November 1, 2018.

The Corporation has completed the following preliminary assessment of the significant changes that will have an impact on its accounting policies:

- Revenue from the land portion of holiday packages and the related costs which are currently recognized when passengers depart will be recognized when the corresponding services are rendered over the course of the stay.
- Commission revenue from travel agencies which is currently recognized when travel is reserved will be recognized when passengers depart.
- Certain additional costs incurred to earn income from air transportation services, such as costs related to the worldwide distribution system, which are currently expensed when travel is reserved, will be accounted for as assets when travel is reserved and expensed when revenue is recognized.
- Certain types of revenues, currently recognized on a gross basis, will be recognized on a net basis due to the new criteria introduced by IFRS 15. This reclassification will have no impact on operating results.

The Corporation continues to assess the impact of adopting this standard on its financial statements, in particular the effect of the above-mentioned changes in accounting policies on statement of financial position items, the transition method, as well as the amendments to disclosure requirements, and expects to complete its analysis in the coming quarters.

### **IFRS 16, LEASES**

In January 2016, the IASB issued IFRS 16, *Leases*, which supersedes IAS 17, *Leases*. Leasing is an important and flexible source of financing for many companies. However, under the current IAS 17 standard, it is difficult to obtain a clear picture of the assets and liabilities related to the leasing agreements of an entity. IFRS 16 introduces a single lessee accounting model under which most of lease-related assets and liabilities are recognized in the statement of financial position. For the lessor, substantially all the current accounting requirements remain unchanged. Certain exemptions will apply to short-term leases and leases of low value assets.

Considering that the Corporation is committed under numerous operating leases in accordance with IAS 17, the Corporation expects that the adoption of IFRS 16 will have a significant impact on its financial statements. The Corporation will be required to recognize an asset related to the right of use and a liability at the present value of future lease payments. Amortization of the right-of-use asset and interest expense on the lease obligation will replace rent expense related to operating leases.

The application of IFRS 16 is mandatory and will be effective for the Corporation's annual reporting period beginning on November 1, 2019. The Corporation continues to assess the impact of the adoption of this new standard on its financial statements and has not determined which transition method it will use.

## CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer that, among other things, deem adequate as at July 31, 2018 the design of:

- Disclosure controls and procedures, which provide reasonable assurance that material financial information has been duly disclosed by the Corporation and its subsidiaries and that this information is recorded, processed, summarized and reported within the time periods specified in legislation;
- Internal control over financial reporting ("ICFR"), which, in accordance with COSO 2013 controls, provides reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements in accordance with IFRS.

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended July 31, 2018 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

## OUTLOOK

**Fourth quarter 2018** – The transatlantic market outbound from Canada and Europe accounts for a substantial portion of Transat's business during the summer season. For the period from August to October 2018, the Corporation's capacity is higher by 14%. To date, 84% of the capacity has been sold, load factors are 1.1% higher than those of summer 2017 and selling prices of bookings taken are 2.7% lower than those recorded at the same date in 2017. Higher fuel costs, combined with currency variations, will result in a 7.3% increase in operating costs if aircraft fuel prices remain stable and the dollar remains at its current level against the U.S. dollar, the euro and the pound. It should be noted that the price of aircraft fuel increased by 11% between the beginning of April and mid-June.

In the sun destinations market, for which summer is low season, 75% of the capacity marketed has been sold. To date, unit margins are 7.2% lower than those recorded in 2017, considering the impact of higher fuel prices.

Accordingly, and considering the recent significant increase in aircraft fuel costs, the Corporation expects that its overall results for the fourth quarter will be lower than last year.

**Winter 2019** – In the sun destinations market, the Corporation's main market for the period, Transat's capacity is higher by 3% than the previous year. To date, 25% of that capacity has been sold and load factors are ahead by 2.7% when compared to 2018. The impact of increased fuel costs, combined with fluctuations in the Canadian dollar, will result in a 3.4% increase in operating expenses if aircraft fuel prices and the dollar against the U.S. dollar remain stable.

The Corporation considers that it is still too early to give any guidance regarding winter season results, especially since comparisons have to be made with a period of 2017 before the hurricanes, which had a significant impact on the rest of the season.

**TRANSAT A.T. INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(in thousands of Canadian dollars)	As at July 31, 2018	As at October 31, 2017
	\$	\$
<b>ASSETS</b>		
Cash and cash equivalents	867,247	593,582
Cash and cash equivalents in trust or otherwise reserved <i>[note 5]</i>	184,665	258,964
Trade and other receivables	152,658	121,618
Income taxes receivable	7,309	2,318
Inventories	12,527	12,790
Prepaid expenses	41,681	64,245
Derivative financial instruments	23,292	18,024
Current portion of deposits	12,577	18,487
Assets held for sale <i>[note 4]</i>	—	47,472
<b>Current assets</b>	<b>1,301,956</b>	<b>1,137,500</b>
Cash and cash equivalents reserved <i>[note 5]</i>	51,184	50,100
Deposits	41,385	33,642
Income taxes receivable	15,100	15,100
Deferred tax assets	23,560	16,286
Property, plant and equipment	136,083	134,672
Intangible assets	47,122	49,604
Derivative financial instruments	158	34
Investment <i>[note 7]</i>	16,736	15,888
Other assets	394	390
<b>Non-current assets</b>	<b>331,722</b>	<b>315,716</b>
	<b>1,633,678</b>	<b>1,453,216</b>
<b>LIABILITIES</b>		
Trade and other payables	332,586	245,013
Current portion of provision for overhaul of leased aircraft	30,605	22,699
Income taxes payable	959	8,102
Customer deposits and deferred revenues	561,769	433,897
Derivative financial instruments	5,767	8,123
Liabilities related to assets held for sale <i>[note 4]</i>	—	33,109
<b>Current liabilities</b>	<b>931,686</b>	<b>750,943</b>
Provision for overhaul of leased aircraft <i>[note 8]</i>	29,285	25,218
Other liabilities <i>[note 10]</i>	93,737	96,813
Derivative financial instruments	1,476	155
Deferred tax liabilities	792	2,217
<b>Non-current liabilities</b>	<b>125,290</b>	<b>124,403</b>
<b>EQUITY</b>		
Share capital <i>[note 11]</i>	219,276	215,444
Share-based payment reserve	17,549	17,817
Retained earnings	347,195	351,138
Unrealized gain on cash flow hedges	1,644	4,532
Cumulative exchange differences	(8,962)	(11,061)
	<b>576,702</b>	<b>577,870</b>
	<b>1,633,678</b>	<b>1,453,216</b>

See accompanying notes to interim condensed consolidated financial statements

**NOTICE**

The Corporation's independent auditors have not performed a review of the accompanying interim condensed consolidated financial statements.

**TRANSAT A.T. INC.**  
**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**

(in thousands of Canadian dollars, except per share amounts)	Quarters ended July 31		Nine-month periods ended July 31	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Revenues</b>	696,551	733,152	2,324,314	2,306,794
<b>Operating expenses</b>				
Costs of providing tourism services	173,939	245,812	974,883	1,080,749
Aircraft fuel	158,018	106,394	341,878	254,205
Salaries and employee benefits	100,060	96,788	290,488	277,289
Aircraft maintenance	62,708	46,222	170,540	140,805
Airport and navigation fees	44,864	39,592	105,708	96,152
Aircraft rent	32,090	32,390	95,611	105,854
Commissions	11,072	11,920	78,079	80,831
Other airline costs	73,803	61,782	183,865	160,298
Other	35,119	33,428	103,197	95,607
Share of net income of an associate and a joint venture	(343)	(1,555)	(693)	(11,001)
Depreciation and amortization	13,215	18,077	43,294	49,435
Special items <i>[note 12]</i>	—	1,350	—	1,350
	704,545	692,200	2,386,850	2,331,574
<b>Operating income (loss)</b>	(7,994)	40,952	(62,536)	(24,780)
Financing costs	424	557	1,504	1,456
Financing income	(4,725)	(2,045)	(13,307)	(5,645)
Change in fair value of fuel-related derivatives and other derivatives	1,512	341	(9,069)	(3,533)
Gain on business disposals <i>[note 4]</i>	—	—	(31,064)	—
Foreign exchange loss (gain) on non-current monetary items	(451)	4,368	21	1,938
<b>Income (loss) before income tax expense</b>	(4,754)	37,731	(10,621)	(18,996)
<b>Income taxes (recovery)</b>				
Current	(130)	8,794	(2,417)	(9,009)
Deferred	(939)	1,769	(7,773)	54
	(1,069)	10,563	(10,190)	(8,955)
<b>Net income (loss) for the period</b>	(3,685)	27,168	(431)	(10,041)
<b>Net income (loss) attributable to:</b>				
Shareholders	(4,038)	26,588	(3,943)	(13,839)
Non-controlling interests	353	580	3,512	3,798
	(3,685)	27,168	(431)	(10,041)
<b>Earnings (loss) per share <i>[note 11]</i></b>				
Basic	(0.11)	0.72	(0.11)	(0.37)
Diluted	(0.11)	0.72	(0.11)	(0.37)

See accompanying notes to interim condensed consolidated financial statements

**TRANSAT A.T. INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

	Quarters ended July 31		Nine-month periods ended July 31	
	2018	2017	2018	2017
(in thousands of Canadian dollars)	\$	\$	\$	\$
<b>Net income (loss) for the period</b>	<b>(3,685)</b>	27,168	<b>(431)</b>	(10,041)
<b>Other comprehensive income (loss)</b>				
<b>Items that will be reclassified to net income (loss)</b>				
Change in fair value of derivatives designated as cash flow hedges	(3,879)	(20,764)	3,705	(17,171)
Reclassification to net income (loss)	1,066	(3,016)	(7,648)	(888)
Deferred taxes	765	6,426	1,055	4,837
	(2,048)	(17,354)	(2,888)	(13,222)
Foreign exchange gain (loss) on translation of financial statements of foreign subsidiaries	(1,886)	(10,252)	2,099	(8,205)
<b>Total other comprehensive income (loss)</b>	<b>(3,934)</b>	(27,606)	<b>(789)</b>	(21,427)
<b>Comprehensive income (loss) for the period</b>	<b>(7,619)</b>	(438)	<b>(1,220)</b>	(31,468)
<b>Comprehensive income (loss) for the period attributable to:</b>				
Shareholders	(8,557)	2,262	(5,073)	(32,706)
Non-controlling interests	938	(2,700)	3,853	1,238
	<b>(7,619)</b>	(438)	<b>(1,220)</b>	(31,468)

See accompanying notes to interim condensed consolidated financial statements



**TRANSAT A.T. INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Accumulated other comprehensive income (loss)						Total	Non- controlling interests	Total equity
	Share capital	Share- based payment reserve	Retained earnings	Unrealized gain (loss) on cash flow hedges	Cumulative exchange differences	Reserve related to assets held for sale			
(in thousands of Canadian dollars)	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance as at October 31, 2016</b>	214,250	17,849	218,821	2,211	11,255	—	464,386	—	464,386
Net income (loss) for the period	—	—	(13,839)	—	—	—	(13,839)	3,798	(10,041)
Other comprehensive income (loss)	—	—	—	(13,222)	(5,645)	—	(18,867)	(2,560)	(21,427)
Comprehensive income (loss) for the period	—	—	(13,839)	(13,222)	(5,645)	—	(32,706)	1,238	(31,468)
Issued from treasury	784	—	—	—	—	—	784	—	784
Share-based payment expense	—	411	—	—	—	—	411	—	411
Dividends	—	—	—	—	—	—	—	(3,776)	(3,776)
Reclassification of assets held for sale	—	—	—	—	(14,291)	14,291	—	—	—
Fair value changes in non-controlling interest liabilities	—	—	(900)	—	—	—	(900)	—	(900)
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	—	(22)	(22)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(2,560)	—	(2,560)	2,560	—
	784	411	(900)	—	(16,851)	14,291	(2,265)	(1,238)	(3,503)
<b>Balance as at July 31, 2017</b>	215,034	18,260	204,082	(11,011)	(11,241)	14,291	429,415	—	429,415
Net income for the period	—	—	148,147	—	—	—	148,147	266	148,413
Other comprehensive income (loss)	—	—	1,096	15,543	(15,366)	—	1,273	1,255	2,528
Comprehensive income (loss) for the period	—	—	149,243	15,543	(15,366)	—	149,420	1,521	150,941
Issued from treasury	310	—	—	—	—	—	310	—	310
Exercise of options	100	(31)	—	—	—	—	69	—	69
Vesting of PSUs	—	(312)	—	—	—	—	(312)	—	(312)
Share-based payment expense	—	(100)	—	—	—	—	(100)	—	(100)
Dividends	—	—	—	—	—	—	—	(671)	(671)
Reclassification of assets held for sale	—	—	—	—	14,291	(14,291)	—	—	—
Fair value changes in non-controlling interest liabilities	—	—	(2,187)	—	—	—	(2,187)	3,087	900
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	—	(2,682)	(2,682)
Reclassification of non-controlling interest exchange difference	—	—	—	—	1,255	—	1,255	(1,255)	—
	410	(443)	(2,187)	—	15,546	(14,291)	(965)	(1,521)	(2,486)
<b>Balance as at October 31, 2017</b>	215,444	17,817	351,138	4,532	(11,061)	—	577,870	—	577,870
Net income (loss) for the period	—	—	(3,943)	—	—	—	(3,943)	3,512	(431)
Other comprehensive income (loss)	—	—	—	(2,888)	1,758	—	(1,130)	341	(789)
Comprehensive income (loss) for the period	—	—	(3,943)	(2,888)	1,758	—	(5,073)	3,853	(1,220)
Issued from treasury	1,205	—	—	—	—	—	1,205	—	1,205
Exercise of options	2,627	(794)	—	—	—	—	1,833	—	1,833
Vesting of PSUs	—	(1,198)	—	—	—	—	(1,198)	—	(1,198)
Share-based payment expense	—	1,724	—	—	—	—	1,724	—	1,724
Dividends	—	—	—	—	—	—	—	(3,302)	(3,302)
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	—	(210)	(210)
Reclassification of non-controlling interest exchange difference	—	—	—	—	341	—	341	(341)	—
	3,832	(268)	—	—	341	—	3,905	(3,853)	52
<b>Balance as at July 31, 2018</b>	219,276	17,549	347,195	1,644	(8,962)	—	576,702	—	576,702

See accompanying notes to interim condensed consolidated financial statements

**TRANSAT A.T. INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands of Canadian dollars)	Quarters ended July 31		Nine-month periods ended July 31	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net income (loss) for the period	(3,685)	27,168	(431)	(10,041)
Operating items not involving an outlay (receipt) of cash:				
Depreciation and amortization	13,215	18,077	43,294	49,435
Change in fair value of fuel-related derivatives and other derivatives	1,512	341	(9,069)	(3,533)
Gain on business disposals	—	—	(31,064)	—
Foreign exchange loss (gain) on non-current monetary items	(451)	4,368	21	1,938
Share of net income of an associate and a joint venture	(343)	(1,555)	(693)	(11,001)
Deferred taxes	(939)	1,769	(7,773)	54
Employee benefits	700	688	2,100	2,066
Share-based payment expense	610	104	1,724	411
	<b>10,619</b>	<b>50,960</b>	<b>(1,891)</b>	<b>29,329</b>
Net change in non-cash working capital balances related to operations	(30,265)	(11,048)	246,470	262,694
Net change in provision for overhaul of leased aircraft	5,713	(3,048)	11,973	2,806
Net change in other assets and liabilities related to operations	(2,468)	2,377	8,754	(588)
<b>Cash flows related to operating activities</b>	<b>(16,401)</b>	<b>39,241</b>	<b>265,306</b>	<b>294,241</b>
<b>INVESTING ACTIVITIES</b>				
Additions to property, plant and equipment and other intangible assets	(17,243)	(17,223)	(42,503)	(49,064)
Increase in cash and cash equivalents reserved	—	—	(1,084)	(3,650)
Consideration paid for a business acquisition	—	(2,584)	—	(20,321)
Consideration received on business disposals, net of cash disposed of	—	—	26,493	—
<b>Cash flows related to investing activities</b>	<b>(17,243)</b>	<b>(19,807)</b>	<b>(17,094)</b>	<b>(73,035)</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds from issuance of shares	439	232	3,038	784
Repurchase of shares related to stock-based compensation	(17)	—	(556)	—
Dividends paid by a subsidiary to a non-controlling shareholder	(1,183)	(1,553)	(3,302)	(3,776)
<b>Cash flows related to financing activities</b>	<b>(761)</b>	<b>(1,321)</b>	<b>(820)</b>	<b>(2,992)</b>
Effect of exchange rate changes on cash and cash equivalents	(1,648)	(3,662)	(51)	(1,139)
<b>Net change in cash and cash equivalents</b>	<b>(36,053)</b>	<b>14,451</b>	<b>247,341</b>	<b>217,075</b>
Cash and cash equivalents held for sale, beginning of period	—	—	26,324	—
Cash and cash equivalents, beginning of period	903,300	566,288	593,582	363,664
<b>Cash and cash equivalents, end of period</b>	<b>867,247</b>	<b>580,739</b>	<b>867,247</b>	<b>580,739</b>
<b>Supplementary information (as reported in operating activities)</b>				
Net income taxes paid (recovered)	155	(741)	10,136	1,155
Interest paid	76	59	246	311

See accompanying notes to interim condensed consolidated financial statements

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[Amounts are expressed in thousands of Canadian dollars, except for per share amounts or unless specified otherwise] [unaudited]

## Note 1 CORPORATE INFORMATION

Transat A.T. Inc. [the "Corporation"], headquartered at 300 Léo-Pariseau Street, Montréal, Québec, Canada, is incorporated under the Canada Business Corporations Act. Its Class A Variable Voting Shares and Class B Voting Shares are listed on the Toronto Stock Exchange and traded under a single ticker, namely "TRZ."

Transat A.T. Inc. is an integrated company specializing in the organization, marketing and distribution of holiday travel in the tourism industry. The core of its business consists of a tour operator based in Canada which is vertically integrated with its other services of air transportation, distribution through a dynamic travel agency network, value-added services at travel destinations and accommodations.

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended July 31, 2018 were approved by the Corporation's Board of Directors on September 12, 2018.

The Corporation's operations are seasonal in nature; consequently, interim operating results do not necessarily proportionately reflect the operating results for a full year.

## Note 2 SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PREPARATION

These interim condensed consolidated financial statements of the Corporation and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ["IFRS"], as issued by the International Accounting Standards Board ["IASB"] and as adopted by the Accounting Standards Board of Canada. These interim condensed consolidated financial statements were prepared in accordance with IAS 34, *Interim Financial Reporting*.

These interim condensed consolidated financial statements are presented in Canadian dollars, the Corporation's functional currency, except where otherwise indicated. Each entity of the Corporation determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The same accounting policies and methods of computation are followed in these interim condensed consolidated financial statements as compared with the most recent annual consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes included in the Corporation's Annual Report for the year ended October 31, 2017.

These interim condensed consolidated financial statements have been prepared on a going concern basis, at historical cost, except for financial assets and liabilities classified as financial assets/liabilities at fair value through profit or loss and measured at fair value.

## Note 3 FUTURE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective are discussed below. The Corporation has not early adopted these new standards.

### IFRS 9, FINANCIAL INSTRUMENTS

In July 2014, the IASB completed its three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*, by issuing IFRS 9, *Financial Instruments*. IFRS 9 addresses the classification and measurement of financial assets and financial liabilities, and introduces a forward-looking expected loss impairment model as well as a substantially reformed approach to hedge accounting.

IFRS 9 uses a new approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach recommended by IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability at fair value through profit or loss, will be presented in other comprehensive income rather than in the statement of income.

IFRS 9 also introduces a new expected-loss impairment model that will require timely recognition of expected credit losses. Specifically, entities will be required to account for expected credit losses when financial instruments are first recognized and to recognize full lifetime expected credit losses on a timely basis.

Lastly, IFRS 9 introduces a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. The IFRS 9 transition rules include an exemption allowing companies to continue to apply current hedge accounting under IAS 39 until the final hedge model is effective.

Application of IFRS 9 will be effective for the Corporation's annual reporting period beginning on November 1, 2018, with earlier adoption permitted. Other than the potential impact of adopting optional hedge accounting in accordance with IFRS 9, the Corporation does not expect the adoption of IFRS 9 to have a material impact on its financial statements. The Corporation continues to assess the impact of the adoption of IFRS 9 on its financial statements, including the decision regarding the hedge accounting transition.

#### **IFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS**

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard that specifies the steps and timing of revenue recognition for issuers as well as requiring them to provide relevant and more comprehensive disclosures. The core principle of IFRS 15 is that an entity should recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the expected consideration receivable in exchange for those goods or services. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. The application of IFRS 15 is mandatory and will be effective for the Corporation's annual reporting period beginning on November 1, 2018.

The Corporation has completed the following preliminary assessment of the significant changes that will have an impact on its accounting policies:

- Revenue from the land portion of holiday packages and the related costs which are currently recognized when passengers depart will be recognized when the corresponding services are rendered over the course of the stay.
- Commission revenue from travel agencies which is currently recognized when travel is reserved will be recognized when passengers depart.
- Certain additional costs incurred to earn income from air transportation services, such as costs related to the worldwide distribution system, which are currently expensed when travel is reserved, will be accounted for as assets when travel is reserved and expensed when revenue is recognized.
- Certain types of revenues, currently recognized on a gross basis, will be recognized on a net basis due to the new criteria introduced by IFRS 15. This reclassification will have no impact on operating results.

The Corporation continues to assess the impact of adopting this standard on its financial statements, in particular the effect of the above-mentioned changes in accounting policies on statement of financial position items, the transition method, as well as the amendments to disclosure requirements, and expects to complete its analysis in the coming quarters.

#### **IFRS 16, LEASES**

In January 2016, the IASB issued IFRS 16, *Leases*, which supersedes IAS 17, *Leases*. Leasing is an important and flexible source of financing for many companies. However, under the current IAS 17 standard, it is difficult to obtain a clear picture of the assets and liabilities related to the leasing agreements of an entity. IFRS 16 introduces a single lessee accounting model under which most of lease-related assets and liabilities are recognized in the statement of financial position. For the lessor, substantially all the current accounting requirements remain unchanged. Certain exemptions will apply to short-term leases and leases of low value assets.

Considering that the Corporation is committed under numerous operating leases in accordance with IAS 17, the Corporation expects that the adoption of IFRS 16 will have a significant impact on its financial statements. The Corporation will be required to recognize an asset related to the right of use and a liability at the present value of future lease payments. Amortization of the right-of-use asset and interest expense on the lease obligation will replace rent expense related to operating leases.

The application of IFRS 16 is mandatory and will be effective for the Corporation's annual reporting period beginning on November 1, 2019. The Corporation continues to assess the impact of the adoption of this new standard on its financial statements and has not determined which transition method it will use.

#### Note 4 BUSINESS DISPOSALS

##### JONVIEW CANADA INC.

On November 30, 2017, the Corporation completed the sale of its wholly-owned subsidiary Jonview Canada Inc. ["Jonview"], which has an incoming tour operator business in Canada, to Japanese multinational H.I.S. Co. Ltd., which specializes in travel distribution, following approval of the transaction by the Competition Bureau of Canada and compliance with other customary conditions. Under the terms of the agreement, the selling price was adjusted downward owing to a working capital adjustment of \$633, paid to H.I.S. Co. Ltd. on March 29, 2018, and totals \$48,896, of which \$47,329 was received in cash on November 30, 2017. The disposed subsidiary's net assets amounted to \$13,430 on November 30, 2017. The Corporation recognized a gain on business disposal of \$31,264, net of transaction costs of \$486 and of \$3,716 due to the Fonds de Solidarité des Travailleurs du Québec ["Fonds"], of which \$3,278 was paid in cash during the first quarter, as an additional consideration to the repurchase price of the 19.93% interest held by the Fonds in December 2016.

Since Jonview's operations do not represent a principal and separate line of business for the Corporation, its results are included in the Corporation's net income from continuing operations reported in the consolidated statements of income and comprehensive income for the nine-month period ended July 31, 2018. As at October 31, 2017, the assets and liabilities of Jonview were reported as held for sale in the consolidated statements of financial position.

The assets and liabilities disposed of in connection with Jonview are as follows:

	2018
	\$
Cash and cash equivalents	(14,304)
Other current assets	(11,275)
Non-current assets	(2,945)
Current liabilities	14,904
Non-current liabilities	190
<b>Net assets disposed of</b>	<b>(13,430)</b>
Cash consideration received	46,696
Cash consideration paid to the Fonds de Solidarité des Travailleurs du Québec (FSTQ)	(3,278)
Cash-settled transaction costs	(486)
Cash and cash equivalents disposed of	(14,304)
<b>Cash flows from the disposal of Jonview</b>	<b>28,628</b>

##### OCEAN HOTELS

On October 4, 2017, the Corporation completed the sale of its 35% minority interest in Ocean Hotels to H10 Hotels for an amount of US\$150,500 [\$187,500], received in cash. The disposed interest had a carrying value of \$97,252 as at October 4, 2017. During the year ended October 31, 2017, the Corporation recognized a gain on business disposal of \$86,616, net of transaction costs of \$1,697, as well as a foreign exchange gain of \$15,478 realized on the reclassification of the cumulative exchange differences related to the investment.

Under the terms of the agreement, on March 8, 2018, the selling price was adjusted downward by US\$1,500 [\$1,935] to US\$149,000 [\$185,565]. As a result of additional transaction costs incurred in connection with the closing of the transaction, the Corporation also recognized a downward adjustment of \$200 to the gain on business disposal, bringing the total amount of the gain on disposal of Ocean Hotels to \$86,416.

## Note 5 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at July 31, 2018, cash and cash equivalents in trust or otherwise reserved included \$165,113 [\$239,974 as at October 31, 2017] in funds received from customers, primarily Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation's business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included \$70,736, of which \$51,184 was recorded as non-current assets [\$69,090 as at October 31, 2017, of which \$50,100 was recorded as non-current assets], which was pledged as collateral security against letters of credit.

## Note 6 IMPAIRMENT TEST

In compliance with the accounting policies adopted by the Corporation, annual impairment testing for intangible assets with indefinite lives is required on April 30 and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of each asset, cash-generating unit ("CGU") or group of CGUs. Where the recoverable amount of the asset, CGU or group of CGUs is less than its carrying amount, an impairment loss is recognized.

The Corporation performed an impairment test as at April 30, 2018 to determine whether the carrying amount of trademarks was higher than their recoverable amount. Following this impairment test, the Corporation did not identify any impairment of its trademarks, which totalled \$4,588 as at July 31, 2018.

The recoverable amount is determined based on value in use, using a discounted cash flow model. The Corporation prepares cash flow forecasts based on the most recently approved annual budgets and three-year plans of the relevant business. Cash flow forecasts reflect the risk associated with each asset, as well as the most recent economic indicators. Cash flow forecasts beyond three years are extrapolated based on nil growth rates. The cash flow forecasts used also reflect the effects of implementing the Corporation's integrated distribution and brand strategy aiming to further expand the Transat brand, therefore decreasing the use of certain trademarks held by the Corporation.

As at April 30, 2018, after-tax discount rates used for impairment testing for trademarks ranged from 10.0% to 18.0% [between 10.0% and 18.0% as at April 30, 2017].

On April 30, 2018, a 1% increase in the after-tax discount rate used for impairment testing, assuming that all other variables had remained the same, would not have resulted in any impairment charge.

On April 30, 2018, a 10% decrease in the cash flows used for the impairment testing, assuming that all other variables had remained the same, would not have resulted in any impairment charge.

As at July 31, 2018, there was no indication that the conclusions of the test might have changed since April 30, 2018.

## Note 7 INVESTMENT

The change in our 50% investment in a joint venture, Desarrollo Transimar, is detailed as follows:

	\$
Balance as at October 31, 2017	15,888
Share of net income	693
Translation adjustment	155
<b>Balance as at July 31, 2018</b>	<b>16,736</b>

The investment was translated at the USD/CAD rate of 1.3017 as at July 31, 2018 [1.2898 as at October 31, 2017].

## Note 8 PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

The provision for overhaul of leased aircraft relates to the maintenance obligation for leased aircraft and spare parts used by the Corporation's airline under operating leases. The change in the provision for overhaul of leased aircraft for the quarter ended July 31 is detailed as follows:

	\$
<b>Balance as at October 31, 2017</b>	<b>47,917</b>
Additional provisions	15,365
Utilization of provisions	(7,767)
Unused amounts released	(1,338)
<b>Balance as at April 30, 2018</b>	<b>54,177</b>
Additional provisions	10,609
Utilization of provisions	(4,896)
<b>Balance as at July 31, 2018</b>	<b>59,890</b>
Current provisions	30,605
Non-current provisions	29,285
<b>Balance as at July 31, 2018</b>	<b>59,890</b>

## Note 9 LONG-TERM DEBT

On May 11, 2018, the Corporation renewed its \$50,000 revolving credit facility agreement for operating purposes. Under the new agreement, which expires in 2022, the Corporation may increase the credit limit to \$100,000, subject to lender approval. The agreement may be extended for a year on each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries, subject to certain exceptions, and is further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at July 31, 2018, all the financial ratios and criteria were met and the credit facility was undrawn.

The Corporation also has a \$75,000 annually renewable revolving credit facility in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at July 31, 2018, \$56,140 had been drawn down under the facility [\$54,847 as at October 31, 2017], of which \$51,184 is to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

## Note 10 OTHER LIABILITIES

	As at July 31, 2018	As at October 31, 2017
	\$	\$
Employee benefits	42,146	40,764
Deferred lease incentives	24,641	29,649
Non-controlling interests	26,950	26,400
	<b>93,737</b>	<b>96,813</b>



## Note 11 EQUITY

### AUTHORIZED SHARE CAPITAL

#### CLASS A VARIABLE VOTING SHARES

An unlimited number of participating Class A Variable Voting Shares ["Class A Shares"] which may be owned or controlled only by non-Canadians as defined by the Canada Transportation Act ["CTA"], carrying one vote per Class A Share unless [i] the number of issued and outstanding Class A Shares exceeds 25% of the total number of all issued and outstanding voting shares (or any higher percentage that the Governor in Council may specify pursuant to the CTA); or [ii] the total number of votes cast by or on behalf of holders of Class A Shares at any meeting exceeds 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the total number of votes that may be cast at such meeting.

If either of the above-noted thresholds is surpassed, the vote attached to each Class A Share will decrease automatically, without further act or formality. Under the circumstance described in subparagraph [i] above, the Class A Shares as a class cannot carry more than 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the aggregate votes attached to all issued and outstanding voting shares of the Corporation. Under the circumstance described in subparagraph [ii] above, the Class A Shares as a class cannot, for a given shareholders' meeting, carry more than 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the total number of votes that can be exercised at the said meeting.

Each issued and outstanding Class A Share shall be automatically converted into one Class B Voting Share without any further action on the part of the Corporation or of the holder if [i] the Class A Share is or becomes owned or controlled by a Canadian as defined by the CTA; or [ii] the provisions contained in the CTA relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

#### CLASS B VOTING SHARES

An unlimited number of Class B Voting Shares ["Class B Shares"], participating, which may be owned and controlled only by Canadians as defined by the CTA and shall confer the right to one vote per Class B Share at all meetings of shareholders of the Corporation. Each issued and outstanding Class B Share shall be converted into one Class A Share automatically without any further action on the part of the Corporation or the holder if the Class B Share is or becomes owned or controlled by a non-Canadian as defined by the CTA.

#### PREFERRED SHARES

An unlimited number of preferred shares, non-voting, issuable in series, each series bearing the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

### ISSUED AND OUTSTANDING SHARE CAPITAL

The changes affecting Class A Shares and Class B Shares were as follows:

	Number of shares	\$
<b>Balance as at October 31, 2016</b>	36,859,165	214,250
Issued from treasury	155,670	784
<b>Balance as at July 31, 2017</b>	37,014,835	215,034
Issued from treasury	39,570	310
Exercise of options	9,221	100
<b>Balance as at October 31, 2017</b>	37,063,626	215,444
Issued from treasury	144,124	1,205
Exercise of options	287,485	2,627
<b>Balance as at July 31, 2018</b>	<b>37,495,235</b>	<b>219,276</b>

As at July 31, 2018, the number of Class A Shares and Class B Shares was 3,321,254 and 34,173,981, respectively [3,457,571 and 33,606,055 as at October 31, 2017].



STOCK OPTION PLAN

	Number of options	Weighted average price (\$)
Balance as at October 31, 2017	2,246,032	10.57
Granted	157,735	10.94
Exercised	(287,485)	6.38
Cancelled	(160,801)	13.42
Expired	(145,782)	21.36
<b>Balance as at July 31, 2018</b>	<b>1,809,699</b>	<b>10.15</b>
<b>Options exercisable as at July 31, 2018</b>	<b>1,392,343</b>	<b>10.09</b>

EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share were calculated as follows:

	Quarters ended		Nine-month periods ended	
	July 31	July 31	July 31	July 31
	2018	2017	2018	2017
(in thousands of dollars, except per share data)	\$	\$	\$	\$
<b>NUMERATOR</b>				
Net income (loss) attributable to shareholders of the Corporation used in computing basic and diluted earnings (loss) per share	(4,038)	26,588	(3,943)	(13,839)
<b>DENOMINATOR</b>				
Adjusted weighted average number of outstanding shares	37,463	36,991	37,351	36,937
<b>Effect of dilutive securities</b>				
Stock options	—	6	—	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	37,463	36,997	37,351	36,937
<b>Earnings (loss) per share</b>				
Basic	(0.11)	0.72	(0.11)	(0.37)
Diluted	(0.11)	0.72	(0.11)	(0.37)

Given the loss recognized for the quarter ended July 31, 2018, the 1,809,699 outstanding stock options were excluded from the calculation due to their anti-dilutive effect. For the purposes of calculating diluted earnings (loss) per share for the quarter ended July 31, 2017, 1,805,765 outstanding stock options were excluded from the calculation, as their exercise price exceeded the Corporation's average market share price.

Given the losses recognized for the nine-month periods ended July 31, 2018 and 2017, the 1,809,699 and 2,279,713 outstanding stock options, respectively, were excluded from the calculation due to their anti-dilutive effect.

**Note 12 SPECIAL ITEMS**

The special items include the restructuring charge and other significant unusual items. During the quarter ended July 31, 2017, a restructuring charge of \$1,350, comprising termination benefits, was recognized.

## Note 13 GUARANTEES

In the normal course of business, the Corporation has entered into agreements containing clauses meeting the definition of a guarantee. These agreements provide compensation and guarantees to counterparties in transactions such as operating leases, irrevocable letters of credit and collateral security contracts.

These agreements may require the Corporation to compensate the counterparties for costs and losses incurred as a result of various events, including breaches of representations and warranties, loss of or damages to property, claims that may arise while providing services and environmental liabilities.

Notes 8, 10, 18, 25 and 26 to the financial statements for the year ended October 31, 2017 provide information about some of these agreements. The following constitutes additional disclosure.

### OPERATING LEASES

The Corporation's subsidiaries have general indemnity clauses in many of their airport and other real estate leases whereby they, as lessee, indemnify the lessor against liabilities related to the use of the leased property. These leases expire at various dates through 2034. The nature of the agreements varies based on the contracts and therefore prevents the Corporation from estimating the total potential amount its subsidiaries would have to pay to lessors. Historically, the Corporation's subsidiaries have not made any significant payments under such agreements and have liability insurance coverage in such circumstances.

### COLLATERAL SECURITY CONTRACTS

The Corporation has entered into collateral security contracts with certain suppliers. Under these contracts, the Corporation guarantees the payment of certain services rendered that it undertook to pay. These contracts typically cover a one-year period and are renewable.

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at July 31, 2018, the total amount of these guarantees unsecured by deposits totalled \$415. Historically, the Corporation has not made any significant payments under such agreements. As at July 31, 2018, no amounts had been accrued with respect to the above-mentioned agreements.

### IRREVOCABLE CREDIT FACILITY UNSECURED BY DEPOSITS

On February 27, 2018, the Corporation renewed its collateral security facility. Under this agreement, which is now renewable in 2020, the Corporation may issue collateral security contracts with a maximum three-year term and for a total amount of \$50,000. As at July 31, 2018, \$29,463 had been drawn under the facility.

## Note 14 SEGMENTED DISCLOSURE

The Corporation has determined that it conducts its activities in a single industry segment, namely holiday travel. With respect to geographic areas, the Corporation's operations are mainly in the Americas. Revenues and non-current assets outside the Americas are not material. Therefore, the consolidated statements of income (loss) and consolidated statements of financial position include all the required information.



